

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| INVESTIGATION INTO THE CUSTOMER DEPOSIT |) CASE NO. |
| POLICY OF KENTUCKY POWER COMPANY |) 89-057 |

O R D E R

The Commission is opening this case upon its own motion. In October 1988, the Commission received an informal complaint from James H. Daniels complaining that Kentucky Power Company ("Kentucky Power") was paying simple interest rather than compound interest on the required deposit he paid to secure service. The question presented to the Commission in Mr. Daniels' complaint was how should the interest which a utility is required to pay on customer deposits, pursuant to KRS 278.460, be calculated. After sufficient review of the matter, including meeting with Kentucky Power, the Commission, by letter dated January 31, 1989, advised Kentucky Power that:

In summary, it is our position that Mr. Daniels' allegations are correct and that you should proceed to recalculate his interest under no less than what is described in McWilliams v. Northwestern Mutual Life Insurance Company, Ky., 147 S.W.2d 79, 82 (1941) as "a middle course between simple and compound interest." You should record on your books accordingly.

A copy of this letter is attached to this Order as Appendix A. The letter further requested Kentucky Power to provide written confirmation no later than February 15, 1989 that it had

recalculated Mr. Daniels' interest accordingly. In the alternative Kentucky Power could file a memorandum or other evidence in support of its position and request the Commission to render a formal decision. To date the Commission has not received either a written confirmation or a request that the Commission render a formal decision. The Commission received a copy of a letter from Kentucky Power to Mr. Daniels dated February 14, 1989 which transmitted a check paying him simple interest on his deposit. (See Appendix B.) Furthermore, the Commission received a letter from Mr. Daniels dated February 23, 1989 notifying the Commission that he did not accept Kentucky Power's check paying simple interest and that he was dissatisfied with Kentucky Power's refusal to recalculate his interest as directed in the Commission's January 31, 1989 letter. (See Appendix C.)

IT IS THEREFORE ORDERED as follows:

1. Kentucky Power shall appear at a hearing to be held at the Commission's offices on April 18, 1989 at 1:30 p.m., Eastern Daylight Time, to present oral argument and any legal authority it may have, to show cause, if it can, why it is not in violation of KRS 278.460 and why it has failed to comply with the Commission's directive to recalculate Mr. Daniels' interest as stated in the January 31, 1989 letter.

2. GTE South Incorporated, Contel of Kentucky, Inc., and Cincinnati Bell Telephone Company are receiving a copy of this Order and are hereby put on notice that the Commission's decision in this matter could possibly change the Commission's acceptance

Done at Frankfort, Kentucky, this 17th day of March, 1989.

Chairman

Robert M. Davis
Vice Chairman

Spencer W. Williams, Jr.
Commissioner

Executive Director



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

January 31, 1989

Mr. Jim Saltz
Vice President
Kentucky Power Company
1701 Central Avenue
P. O. Box 1428
Ashland, Kentucky 41101

Re: James H. Daniels' Complaint

Dear Jim:

The Commission is now ready to proceed with the investigation of this complaint. We have re-evaluated the previous staff position that interest on held consumer deposits should be made on a compound rather than simple interest basis. Moreover, any existing customer account where compound interest has not been applied should be recalculated and recorded on your books. In summary, it is our position that Mr. Daniels' allegations are correct and that you should proceed to recalculate his interest under no less than what is described in McWilliams vs. Northwestern Mutual Life Insurance Company, Ky., 147 S.W. 2d 79, 82 (1941) as "a middle course between simple and compound interest." You should record on your books accordingly.

I ask that you complete this action by February 15 and provide written confirmation that you have done so. In the alternative, if you still disagree with our opinion, please file a memorandum or other evidence in support of your position and request that the Commission render a formal decision.

If you have any questions, please feel free to contact me at (502) 564-2473.

Sincerely,

A handwritten signature in cursive script, appearing to read "Forest", is written above the typed name.

Forest M. Skaggs
Executive Director

FMS/cbg

cc: Mr. James H. Daniels

Kentucky Power Company
305 Main Street
P. O. Box 1227
Pikeville, KY 41501-1227
606-437-3777



Mr. James H. Daniels
P. O. Box 217
Auxier, KY 41602

February 14, 1989

Dear Mr. Daniels:

In response to your inquiry regarding interest on your \$15.00 security deposit, Kentucky Power accrues 6% simple interest on all customer deposits.

Enclosed is a check in the amount of \$22.79 which is payment for interest on your deposit at 6% simple interest for the period September 5, 1963 through December 31, 1988.

We hope this resolves your concern over this matter.

Sincerely,

A handwritten signature in cursive script that reads "Clyde Stalker".

Clyde Stalker
Marketing & Customer Services Manager

CS/bc
Enclosure

cc: Forest M. Skaggs, Executive Director
Kentucky Public Service Commission

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FEB 27 1989

PUBLIC SERVICE COMMISSION
CONSUMER SERVICES

February 23, 1989

Forest Skaggs
Executive Director
Ky. Public Service Commission
730 Schenkel Lane
Frankfort, Ky. 40602

Mr. Skaggs

I am in receipt of a copy of your letter of January 31, 1989 to Mr Jim Saltz of Kv Power Co. in Ashland Ky.

Your letter agrees with my allegation and directs Ky Power Co. to recalculate interest owed on my deposit, compounded rather than simple. You asked that this be completed by February 15 1989, on which date I received from Ky Power Co a certified letter, written by Clyde Stalker and copied to you. This letter also contained a check for \$22.70 said to be "payment for interest on your deposit at 6% simple interest for the period September 5 1963 thru December 31 1988."

The appearance of this letter is to be in direct defiance of Kentucky's Judicial Powers as well as the authority granted to the Ky Public Service Commission.


I heartly request that you as Executive Director of the Ky Public Service Commission take whatever action that is available to you to bring this insubordinate utility, Kv Power Co, into a subordinate position on this matter.

I am, by certified mail, returning to Kv Power Co the above mentioned check to show my refusal to accept their defiance of your regulations.

I would like to make one further clarification. I did not ask for a refund of my deposit nor a payment of interest, only that my deposit account be calculated and reported to me.

cc: Bob Johnston

Appreciately Yours


James H. Daniels

February 23, 1989

Clyde Stalker
Customer Service Manager
Kentucky Power Co.
305 Main St.
Pikeville.Ky. 41501

Mr. Stalker

Enclosed is your company check which I am returning to you uncashed. I did not ask for a refund of my deposit or payment of the interest owed, only that my deposit account be calculated by the prescribed method of the Ky Public Service Commission and Ky Judicial rulings.

In view of your defiance of these procedures, I am on this date filing a formal complaint with the Ky Public Service Commission.

cc:Forrest Skaggs
Bob Johnston

James H Daniels
Box 217
Auxier, Ky.